

TAX MONITORING AS AN ALTERNATIVE TO EXISTING FORMS OF TAX CONTROL IN RUSSIA

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ABSTRACT

Introduction: *The article deals with the questions of the tax control exercised by tax authorities. Tax control in tax system of any country takes the central place. Essence of tax control is motivation of taxpayers through system of tax sanctions to observance of the tax law and to timely and payment in full of tax payments.*

Except the main forms of tax control, such as off-site and on-site tax audit, since 2016 a new form of tax control - tax monitoring or "horizontal" monitoring joined into force. The article is devoted to consideration of prospects of tax monitoring.

Methods: *A methodological basis of research is the dialectic method of knowledge, system approach to the analysis of the considered facts and the phenomena. Research is based on application of methods of the analysis, system and complexity, the factorial analysis, and methods of the structural-functional and statistical analysis. The mentioned methods are used in various combinations at different investigation phases depending on goals and the solved tasks. It promoted ensuring reliability of the carried-out analysis and validity of the conclusions drawn by authors.*

Results: *The main results of studying of forms and methods of tax control are both the absolute measures of examination of tax authorities and relative measures presented in the article. It is impossible to give statistics of efficiency of tax monitoring. Tax monitoring in full joined into force since the beginning of 2016 and therefore statistics of efficiency are absent.*

Discussion: *Tax monitoring is for the first time tested in practice of tax authorities of the Netherlands in 2005. Lately other countries, including the CIS countries - Ukraine, Kazakhstan, etc. also have joined introduction of horizontal monitoring. Opinions of scientists-economists in general are reduced to a positive assessment of this form of tax control that demands confirmation time.*

Closing statement: *Emergence of a new form of tax control does not belittle value of traditional forms of control of observance of the tax law. So far, the small number of taxpayers can be passed to horizontal control because of legislative requirements for the size of the company. Parallel development of different forms of tax control will improve tax climate in the country and will allow creating conditions for creative approach in the taxation.*

Keywords: *tax, tax control, tax monitoring, reasoned opinion, mutual agreement procedure, horizontal monitoring, large taxpayer, tax agency, Federal Tax Service, Interregional Inspectorate of FTS.*

INTRODUCTION

Control over financial and economic activities of the organization and observance of the civil and tax law gets a particular role in the crisis. Meeting the requirements of current legislation of the state, timely payment of the budgetary and off-budget payments are the main problems the Government of the Russian Federation is solving at the present stage of social and economic development of the country.

Improvement of mechanisms of tax control is one of the foremost tasks facing both the Federal Tax Service (FTS), and public authorities of Russia. Now the country endures a financial and economic crisis. There are two tasks contradicting each other before the state sharply: increase in receipt of taxes in the budget for the purpose of the population support and reduction of tax burden of the enterprises for the purpose of producer support. This problem can be solved by reducing the real tax burden on the economy with simultaneous improvement of the mechanism of administration of tax system and one of its elements - tax control. It is difficult to overestimate the value of the tax control in the tax system of the Russian Federation. The tax control is a core of the tax system of the state on which various forms, methods, types and mechanisms of the tax control are strung. They realize powers of authority of public authorities in the field of taxes and fees. However, the tax control is not static; it is subject to modernization and diversification of risks both in relation to the taxpayer and to the state. In addition to changes in existing mechanisms of tax control, legislators offer alternative, in fact the innovative forms of control changing radically the models of relationship of tax authorities and taxpayers, which have developed earlier.

METHODS

Today tax control in Russia is a wide and multiple factor concept, including such types of control as:

- Tax accounting of taxpayers, objects of tax accounting, the account and control of the movement of accounts in banks;
- Control of accuracy of tax and fees calculation through carrying out off-site and on-site tax audits;
- Control of currency transactions of residents and non-residents of Russia that do not have a status of a bank;
- Control of full and timely payment of taxes and fees through the mechanism of forced tax collection;
- Control of cash and control equipment and payment terminals through the mechanism of public registration of these devices and the up-to-date control of their appropriate usage and others (Shevchuk, 2013).

RESULTS

The most demonstrative results of the tax authorities' control function are indicators of off-site and on-site checks. The fiscal essence of the tax control function that leads to accomplishing the budget plans of all levels can be best noticed by holding these controlling actions. These actions also make taxpayers fulfill their constitutional duty to pay taxes and fees more conscientiously.

Table 1
ECONOMIC EFFECTIVENESS OF ENTITIES' ON-SITE TAX AUDITS ACCORDING TO THE
REPORT DATA BY THE FEDERAL TAX SERVICE OF RUSSIAN FEDERATION (RF FTS) BY
01.01.2015

The number of entities registered in United State Register of Legal Entities (USRLE)ⁱ (without non-profit organizations)	The number of field tax audits (OTA) in 2014	The percentage of entities checked (%)	The number of effective OTA	The percentage of effective OTA (%)	The sum of additional amount per 1 OTA (1000 rubles)
3991137	29459	0,74	29079	98,7	9615

Based on the data obtained from the Federal Tax Service of Russia reports shows that the total number of commercial organizations in the Unified State Register of Legal Entities for the year 2014 only 0.74% of the total number of commercial organizations covered by on-site checks. Consequently, for the three years (during the period of tax liability) will be checked by just over 2% of all commercial organizations.

Analyzing the data of Table 1, we can see the high effectiveness of the carried-out on-site tax audits that marks the high level of choice of entities to be assigned for OTA. One more index to be noticed is a sum of tax payments per one OTA that is 9.6 million rubles. These payments are made not by small business but by medium and big business. However, the number of organizations not covered by OTA and the sums of money not being recorded by tax audits and not sent to the budget system of the country may be more than we can imagine.

Unfortunately the reality of relations between tax authorities and taxpayers doesn't include any degree of trust to each other. There is no legal definition of "conscientious and law-abiding" taxpayer in Russia yet. All the attempts of local authorities to benefit the taxpayers who pay the taxes and fees fully and timely by good attitude to them can be considered as corruption. Nevertheless, the government and society need for law-abiding and tax-paying taxpayers is on the day's schedule. Today one of the goals for the tax system reform in Russia is reaching equilibrium between the stimulating and fiscal aims of taxation. In addition, one of the most important criteria for estimating the tax system effectiveness is a relationship climate between the taxpayers and the tax authorities. However, the taxes are being paid well not, where the tax rates are low, but where the taxpayers are eager to voluntarily pay the taxes.

Therefore, being in need for initiation the process of government's and taxpayers' interests convergence, the law was adopted in 2014 and enacted on January 1st 2015 adds the tax monitoring to the list of tax controlling procedures. The tax monitoring is literally substituting off-site and on-site tax control. The tax monitoring is not a new procedure of control. It for the first time appeared in the Netherlands under the name of horizontal monitoring and in 2005 was widely introduced in the tax systems of such developed countries as USA, GB, Australia, Canada, France, Germany and others. In today's world practice the horizontal monitoring is one of the alternative ways of solving tax disputes - Alternative dispute resolution (ADR). This mechanism is based on the partnership between the taxpayer and the tax authorities, where the authorities having the access to citizen's tax accounting and financial reporting can give a warning about a possible breaking the tax law and its consequences.

DISCUSSION

The essence of the tax monitoring is to establish confidential relationships between the taxpayer and the tax authority by an agreement between them on the basis of the taxpayer's application. The taxpayer opens for experts of tax authority the information base of tax accounting and financial reporting in the viewing mode of the primary documents that serve as the basis of formation the tax base for various taxes actually in "online" mode. The tax authority, in turn, quickly tracking the operations on calculation of taxes performed by the taxpayer, warns the taxpayer about the possible tax risks at the commission of an operation. The main task that allows solving the horizontal monitoring is to create favorable conditions for businesses aspiring to a high degree of transparency and readiness for cooperation with tax authorities. Such cooperation allows companies to improve considerably the efficiency of tax risk management and reduce the costs of resolving disputes with the tax authorities. According to the deputy head of the Russian Federal Tax Service Sergey Arakelov, the tax monitoring - "is mutually beneficial cooperation: taxpayer receives certainty on the taxation, that is, to minimize tax risks and tax authority spends less material and labor costs for tax administration". The pilot experiment of tax monitoring in Russia has conducted in 2012 on the basis of the agreement to expand information cooperation on a number of large taxpayers, such as the "Inter RAO UES", "RusHydro", "MTS", Russian representative office of "Ernst & Young" (The EY) and "Severstal". As a result of this experiment, the chairman of the fiscal committee of the State Duma Andrey Makarov said: "The experiment we conducted, of course, with the consent of the companies that were willing to participate in this, demonstrated its extreme efficiency".

At the present, the Russian Internal Revenue Code provides fairly tight restrictions on the admission of organizations to conclude agreements on the monitoring of the tax. The agreement may enter into the organization while respecting the criteria set out in the Internal Revenue Code:

- The total size of the federal taxes such as VAT, excise tax, corporate income tax, tax on the extraction of minerals, without taxes paid in connection with the movement of goods across the customs border of the Customs Union, to be paid to the budget of at least 300 million rubles;
- The total amount of revenue according to annual accounting (financial) reports of not less than 3 billion rubles.;
- The aggregate value of the assets according to the accounting (financial) reports of the organization for 31st December of the year preceding the submission of the statement for tax monitoring, is not less than 3 billion rubles.

Organizations with similar figures, are quite large taxpayers, and, as a rule, consist on tax accounting in special tax authorities - Interregional Inspectorate of the Russian Federal Tax Service for Major Taxpayers, which allows to be engaged in the business of taxation more professionally, taking into account the specifics of a taxpayer. Interregional Inspectorate of the Russian Federal Tax Service for Major Taxpayers should be set up working groups composed of off-site and on-site checks department employees, as well as the legal department, which will be charged with the practical implementation of the tax monitoring. The deputy head of the Interregional Inspectorate of the Russian Federal Tax Service will perform the general management of the group for Major Taxpayers in charge of off-site control.

Basic provisions of tax monitoring:

- Restriction of participants of the tax monitoring with a certain size of financial performance;
- Voluntary nature;
- The limited period of validity of the agreement on the tax monitoring;
- Determination of conditions of early termination of the monitoring of the tax agreement.
- The main mechanisms of tax monitoring realization:
- A control function in the tax monitoring is realized through the preparation of the tax authority of a reasoned opinion, that is the position of the tax authority on a particular fact of economic activity of the taxpayer;
- A reasoned opinion is drawn up by the tax authority on its own initiative (in case of violation of the tax law) or at the request of the taxpayer;
- The taxpayer can agree with the reasoned opinion of the tax authority and to submit the changed specified tax declaration to the tax authority;
- The taxpayer has the right not to agree with the reasoned opinion and send the differences to the tax authority, which have to be considered during the mutual agreement procedure in the superior organization - the federal executive body in charge of control and supervision in the field of taxes and fees;
- The result of mutual agreement procedure may be leaving the reasoned opinion without any changes or previously formulated reasoned opinion can be changed;
- The taxpayer, in the case of an unresolved disagreement during mutual agreement procedure, has the right to appeal to court.

Mechanisms for monitoring the implementation of the tax should also include the Russian Federal Tax Service of the order on the approval of forms of documents used in conducting tax monitoring. This order formalized documents such as the application for carrying out tax monitoring, the decision on carrying out and on refusal in carrying out tax monitoring, the structure of the reasoned opinion of the tax authority is established and the requirements for its development are registered. However, the main document of this order is the regulation of information interaction, opening and detailing the process of carrying out tax monitoring. This regulation opens the order of information interaction between the taxpayer and the tax authority, including such provisions as:

- The order of providing documents to the tax authority;
- The order of reflection by the taxpayer in the register of accounting and taxation revenues, expenses, and taxation object;
- Information about the internal control system of the organization for the correct calculation, complete and timely payment of taxes and fees to the budget system of Russia. More detail relationships within the fiscal monitoring allow avoiding unnecessary conflicts between the parties.

According to the data of Russian Federal Tax Service, there are about two thousand organizations, which are potential participants of tax monitoring. From the words of Sergey Arakelov, only 20-30 companies show the interest to the program of the tax monitoring. Most likely, it is affected by certain mistrust of taxpayers to the tax authorities and discretion. Only time will show how this mechanism of tax control will correspond to the expectations of the taxpayers and the state.

However, should not expect the economic successes from implementation the tax monitoring in the near future, because the one of the main advantages of the innovation is creation-trusting relationship between business and tax authorities and willingness to promoting the interests of business in open and confidential dialogue and not to contradict to the interests of state.

ACKNOWLEDGMENTS

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

ENDNOTES

Unified State Register of Legal Entities (USRLE) - a federal information resource containing general systematic information on legal entities engaged in entrepreneurial activity on the territory of the Russian Federation. The Federal Tax Service of Russia through the territorial societies maintains register.

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